

accordance with the rules presented in §32.27, Transactions with Affiliates. In the separate set of books, carriers may establish whatever detail they deem appropriate beyond what is necessary to provide this Commission with the information required in §§32.1406 and 32.7990.

(c) When a nonregulated activity does involve the common or joint use of assets and resources in the provision of regulated and nonregulated products and services, carriers shall account for these activities within accounts prescribed in this system for telephone company operations. Assets and expenses shall be subdivided in subsidiary records among amounts solely assignable to nonregulated activities, amounts solely assignable to regulated activities, and amounts related to assets and expenses incurred jointly or in common, which will be allocated between regulated and nonregulated activities. Carriers shall submit reports identifying regulated and nonregulated amounts in the manner and at the times prescribed by this Commission. Nonregulated revenue items not provided for elsewhere in this system of accounts and not qualifying for incidental treatment as provided in §32.4999(1), shall be recorded in separate subsidiary record categories of Account 5280, Nonregulated operating revenue. Amounts assigned or allocated to regulated products or services shall be subject to part 36 of this chapter.

[52 FR 6560, Mar. 4, 1987, as amended at 53 FR 49322, Dec. 7, 1988; 59 FR 46930, Sept. 13, 1994]

§32.24 Compensated absences.

(a) Companies shall record a liability and charge the appropriate expense accounts for compensated absences (vacations, sick leave, etc.) in the year in which these benefits are earned by employees.

(b) With respect to the liability that exists for compensated absences which is not yet recorded on the books as of the effective date of this part, the liability shall be recorded in Account 4120, Other Accrued Liabilities, with a corresponding entry to Account 1439, Deferred Charges. This deferred charge shall be amortized on a straight line basis over a period of ten years.

(c) Records shall be maintained so as to show that no more than ten percent of the deferred charge is being amortized each year.

§32.25 Unusual items and contingent liabilities.

Extraordinary items, prior period adjustments and contingent liabilities shall be submitted to this Commission for review before being recorded in the company's books of account. The materiality of corrections of errors in prior periods shall be measured in relation to the summary account level used for reporting purposes for Class A carriers, or in relation to total operating revenues or total operating expenses for Class B carriers. For Class A carriers, no correction in excess of one percent of the aggregate summary account dollars or one million dollars, whichever is higher, may be recorded in current operating accounts without prior approval. For Class B carriers, no correction which exceeds one percent of total operating revenues or one percent of total operating expenses, depending on the nature of the item, may be recorded in current operating accounts without prior approval.

[52 FR 43917, Nov. 17, 1987]

§32.26 Materiality.

Companies shall follow this system of accounts in recording all financial and statistical data irrespective of an individual item's materiality under GAAP, unless a waiver has been granted under the provisions of §32.18 of this subpart to do otherwise.

§32.27 Transactions with affiliates.

(a) Unless otherwise approved by the Chief, Common Carrier Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in paragraphs (b) through (f) of this section.

(b) Charges for assets purchased by or transferred to the regulated telephone activity of a carrier from affiliates shall be recorded in the operating accounts of the regulated activity at the invoice price if that price is determined by a prevailing price held out to the general public in the normal course

of business. If a prevailing price for the assets received by the regulated activity is not available, the charges recorded by the regulated activity for such assets shall be the lower of their cost to the originating activity and the affiliated group less all applicable valuation reserves, or their fair market value.

(c) Assets sold or transferred from the regulated accounts to affiliates shall be recorded as operating revenues, incidental revenues or asset retirements according to the nature of the transaction involved. If such sales are reflected in tariffs on file with a regulatory commission or in a prevailing price held out to the general public, the associated revenues shall be recorded at the prices contained therein in the appropriate revenue accounts. If no tariff or prevailing price is applicable, the proceeds from such sales shall be determined at the higher of cost less all applicable valuation reserves, or estimated fair market value of the asset.

(d) Services provided to an affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Services provided by an affiliate to the regulated activity, when the same services are also provided by the affiliate to unaffiliated persons or entities, shall be recorded at the market rate. When a carrier provides substantially all of a service to or receives substantially all of a service from an affiliate which are not also provided to unaffiliated persons or entities, the services shall be recorded at cost which shall be determined in a manner that complies with the standards and procedures for the apportionment of joint and common costs between the regulated and nonregulated operations of the carrier entity.

(e) Income taxes shall be allocated among the regulated activities of the carrier, its nonregulated divisions, and members of an affiliated group. Under circumstances in which income taxes are determined on a consolidated basis by the carrier and other members of the affiliated group, the income tax expense to be recorded by the carrier shall be the same as would result if determined for the carrier separately for

all time periods, except that the tax effect of carry-back and carry-forward operating losses, investment tax credits, or other tax credits generated by operations of the carrier shall be recorded by the carrier during the period in which applied in settlement of the taxes otherwise attributable to any member, or combination of members, of the affiliated group.

(f) Companies that employ average schedules in lieu of actual costs are exempt from the provisions of this section. For other organizations, the principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations.

[52 FR 6561, Mar. 4, 1987; 52 FR 39534, Oct. 22, 1987]

Subpart C—Instructions for Balance Sheet Accounts

§ 32.101 Structure of the balance sheet accounts.

The Balance Sheet accounts shall be maintained as follows:

Account 1120, Cash and Equivalents, through Account 1500, Other Jurisdictional Assets—Net, shall include assets other than regulated-fixed assets.

Account 2001, Telecommunications Plant in Service, through Account 2007, Goodwill, shall include the regulated fixed assets.

Account 3100, Accumulated Depreciation through Account 3600, Accumulated Amortization—Other, shall include the asset and deferred tax reserves.

Account 4010, Accounts Payable, through Account 4550, Retained Earnings, shall include all liabilities and stockholders equity.

§ 32.102 Nonregulated investments.

Nonregulated investments shall include the investment in nonregulated activities that are conducted through the same legal entity as the telephone company operations, but do not involve the joint or common use of assets or resources in the provision of both regulated and nonregulated products and services. See §§ 32.14 and 32.23.

[52 FR 6561, Mar. 4, 1987]